Press release

Bolzano, 9 August 2019

Volksbank: The Board of Directors approves the half-yearly financial report

The half-yearly financial statements are characterised by the one-off adjustment of goodwill for Euro 99.6 million. Always in the first half-year, the proactive application of value adjustments to non-performing loans reinforced controls over credit risk. These actions, which did not impact the Bank's solidity, liquidity and profit capacity, involved a net accounting loss of Euro 101.5 million. In terms of ordinary profitability, the growth in revenues and components from interest and commissions showed a better performance than the same period of 2018. Therefore, the positive growth of profits was confirmed.

The adjustment impacted solely the accounting entries and involved the derecognition of the item goodwill, which constitutes an intangible asset with an indefinite life, which was generated in previous years as part of the growth operations linked to the acquisition of the branches of Banca Intesa (2008) and Banca Popolare di Marostica (2015). Intangible assets with an indefinite life are subject to an impairment test at least once a year and whenever necessary. For the purposes of the impairment test, the expectations of the ECB regarding the evolution and volatility of market parameters had an impact, as well as the uncertainties over the macroeconomic trend, as confirmed by the recent sector analyses.

This adjustment, merely of an accounting nature, **did not have any impact** on the Bank's capitalisation. The tangible book value (book value of the share net of intangible assets), rose from Euro 14.75 per share, net of the dividend, to as much as Euro 14.94 per share.

The levels of capitalisation, well above the limits set by the Supervisory Authority, are more than adequate enough to support the growth strategy. The CET 1 ratio (IFRS 9 phased-in) stood at 11.7% (11.3% at 31 December 2018); the Total Capital Ratio (IFRS 9 phased-in) stood at 13.8% (13.3% at 31 December 2018). The planned capital strengthening initiatives will allow a further improvement in the requirements as early as the end of 2019.

The **adjustments to non-performing loans**, higher than those planned, are incorporated in a framework of gradual reinforcement of the controls of the cost of borrowing and the review of the valuation and classification processes introduced by the European Supervisory Bodies, initially for larger banks and progressively extended to smaller banks. The result is that the receivables pertaining to the latter are gradually subject to the same valuation rules envisaged for non-performing positions.

The incidence of gross impaired loans ("NPL ratio"), equal to 8.8%, is among the best in the banking system, and essentially unchanged compared to 8.7% as at 31 December 2018. The level of coverage of non-performing loans was strengthened further to 50.9%, compared to 44.0% as at 31 December 2018. The Texas Ratio improved, falling to 46.3% from 51.8% as at 31 December 2018.

The positive evolution of the core business is confirmed by the strong growth, equal to 62.4%, in the net operating profit compared to the same period of 2018. Volumes are up in the entire catchment area. The interest margin rose by 9.6% to Euro 90.9 million; net commission and fee income increased by 3.7% to Euro 44.7 million. As regards capital, growth of 7.5% in deposits and 4.0% in loans was registered.

Thanks to additional efforts on the costs front, administrative costs fell further (down 9%/Euro 89.1 million).

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Balance sheet assets amounted to Euro 10.4 billion (compared to Euro 9.9 billion as at 30 June 2018).

Therefore, the positive development in ordinary profitability was also confirmed for the second half.

The results in detail are set out below:

Thousands of Euro	30.06.2019	30.06.2018	% change
Direct funding	8,022,177	7,461,603	7.5%
Indirect funding	3,660,429	3,487,895	4.9%
Loans	7,243,515	6,962,813	4.0%

In Euros	30.06.2019	30.06.2018	% change
Interest margin	90,858,454	82,901,701	9.6%
Net fee and commission income	44,678,803	43,065,640	3.7%
Administrative costs	(89,078,623)	(97,365,382)	-8.5%
Profit (loss) from ordinary operations before adjustments	46,458,634	28,601,959	62.4%
Value adjustments to customer loans (at amortised cost and at fair value)	(72,113,693)	(16,667,476)	332.7%
Value adjustments to goodwill	(99,601,776)	0	-
Net result	(101,536,831)	15,335,274	

In %	30.06.2019	31.12.2018
NPL Ratio	8.8%	8.7%
Coverage of impaired loans	50.9%	44.0%
Texas Ratio	46.3%	51.8%

“The accounting adjustment, adopted by the Board of Directors, only impacted the accounting entries, and did not affect the Bank’s solidity and autonomy in any way. The confirmation, also in the first half of 2019, of the achievement of the volume growth, profit capacity and capital strengthening objectives, created the conditions for eliminating the book value of goodwill, developed on the basis of an especially conservative market scenario. The Board’s decision had no impact on the cash flows, liquidity, capital strength and no

effect on the forward-looking profitability, and was adopted in order to establish the conditions for the pursuit of growth and for creating value for shareholders.

The prolonged growth of the core business over the last few years has confirmed the accuracy of the strategic choices made. The decision to grow also outside of Alto Adige, taken 30 years ago, has been pursued consistently and with positive results. This decision is in keeping with the strategic decisions and confirms Volksbank's positioning as an independent regional bank able to take on the market challenges", stated President **Otmar Michaeler**.

The General Manager **Johannes Schneebacher** declared*: "Regardless of this interim result, the facts demonstrate that the Bank is capable of continuing to operate independently over the next few years. The internal process of capital strengthening accompanies the continued growth of the capital aggregates and support the profit and growth objectives of the next few years. The Bank continues to achieve excellent results in core business. As regards problem loans, the application of more rigorous criteria led to a substantial improvement in the quality of the portfolio. These initiatives lay the foundations for continuing with the stand-alone growth strategy".*

Main balance sheet item totals

- Net customer lending at Euro 7,243.5 million, of which Euro 6,823.5 million performing (+0.8% compared to 31 December 2018), marking significant growth, confirming the Bank's proximity to its reference customers. Net non-performing loans declined by -11.1% compared to 31 December 2018, primarily as a result of adjustments to the portfolio of unlikely to pay loans and, to a lesser extent, the doubtful loans portfolio;
- Direct funding from customers +4.4% at Euro 8,022.2 million (Euro 7,683.4 million at the end of December 2018), confirming the growth trend in "core" funding from current accounts and on demand deposits (+5.5% or Euro +329.0 million compared to the end of the year) and the decrease in bond issues (-15.0% or Euro -85.4 million), continuing with the replacement of more costly forms of funding with those which are less costly;
- Volumes under administration up by +3.1% to Euro 18.9 billion (Euro 18.4 billion at the end of December 2018).

Main income statement items

- Interest margin at Euro 90.9 million (+9.6% compared to 30 June 2018);
- Net operating income down slightly to Euro 133.4 million, -6.3% compared to Euro 142.4 million in the first half of 2018;
- Operating expenses (net of taxes and charges relating to the banking system) at Euro 89.4 million, against Euro 95.2 million as at 30 June 2018 (-6.2%);
- Operating profit amounted to Euro 44.0 million, down by -6.7% compared to Euro 47.2 million as at 30 June 2018;
- Net adjustments on loans to customers totalling Euro 57.2 million, compared to Euro 17.1 million in the first six months of 2018;
- Net loss of Euro -101.5 million, compared with a profit of Euro 15.3 million in the first half of 2018.

Financial position

- Regulatory CET 1 ratio of 11.7%;
- Regulatory Total Capital Ratio of 13.8%;

Credit quality

- The improvement in credit quality, achieved through a rigorous valuation approach in the impaired loan segment, is reflected in an increase in coverage rates, in the maintenance of the levels of gross non-performing loans in line with the best expectations of the supervisory authority and the reduction in the weight of impaired loans with respect to shareholders' equity ("Texas Ratio").
- Stock of net impaired loans equal to Euro 329.6 million, with a reduction of -11.1% or Euro -41.2 million compared to 31 December 2018;
- Coverage of non-performing loans: 50.9% against 44.0% in 2018;
- Coverage of doubtful loans: 60.1% against 55.5% in 2018.

Liquidity profile

- The Bank's liquidity profit is fully satisfactory. Unencumbered eligible assets as at 30 June 2019, composed mainly of Government bonds, guarantee broad flexibility in the management of sources of funding.
- LCR > 140% and NSFR > 110%.

Impairment of goodwill

- Impairment test developed on the basis of a provisional, conservative medium-term scenario, in light of the monetary policy context and notable uncertainties that will characterise the trend in the European economy over the next few years. The impairment of goodwill amounting to around Euro 99.6 million, in relation primarily to stock per stock transactions. However, for the Bank, the impairment only affects the accounting entries and has no impact on the cash flows, liquidity, capital strength and capital ratios and no impact on forward-looking profitability.

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Income statement results in the first half of 2019

Net interest amounted to Euro 90.9 million, up 9.6% compared to Euro 82.9 million in the first half of 2018.

Dividends and profits from investments carried at equity totalled Euro 1.8 million, stable with respect to Euro 2.2 million in the first half of 2018.

The financial margin is Euro 92.7 million, up by +8.9% compared to Euro 85.1 million in the first half of 2018.

Net fee and commission income came to Euro 44.7 million, up slightly compared to Euro 43.1 million in the first half of 2018.

In detail, fees and commissions from management, brokerage and consulting services rose by +10.5%, within which the component relating to the placement of securities rose by +1.5%, and there was an increase in the components relating to the distribution of bancassurance products (+33.2%) and credit cards and similar products (+6.4%).

Fees and commissions on current account maintenance and management and transactions with customers were stable, those from collection and payment services fell by -4.5%, those on guarantees issued were stable and fees and commissions on "other services" increased by +13.7%.

The net financial result, equal to Euro -14.4 million, marking a variation of Euro -18.7 million compared to Euro +4.3 million in the first half of 2018. In particular, trading activities posted profit of Euro +0.6 million, compared to a profit of Euro +1.3 million in the first half of 2018, net profits on the disposal of assets designated at fair value through other comprehensive income came to Euro +1.3 million, down with respect to Euro +1.6 million in the first half of 2018, while the net profit from financial assets designated at fair value as per mandatory requirements totalled Euro -16.3 million, compared to a net profit of Euro +1.4 million in the first half of 2018.

Other net operating income amounted to Euro 10.5 million, up by +5.0% compared to Euro 10.0 million in the first half of 2018.

Net operating income came to Euro 133.4 million, down by -6.3% compared to Euro 142.4 million in the first half of 2018.

In the operating expenses segment, personnel expenses, totalling Euro 46.9 million, fell by -7.0% compared to Euro 50.5 million in the first half of 2018.

Other administrative expenses, net of taxes and charges relating to the banking system, stood at Euro 35.8 million, down by -8.2% compared to the first half of 2018.

Net adjustments to property and equipment and intangible assets came to Euro 6.7 million, up by +15.6% compared to Euro 5.8 million in the first half of 2018.

Overall, operating expenses totalled Euro 89.4 million, down by -6.2% compared to Euro 95.2 million in the first half of 2018.

Net adjustments to loans to customers, inclusive of losses on disposal, totalled Euro 57.2 million, up compared to Euro 17.1 million in the first half of 2018. Net recoveries on securities and other financial assets amounted to Euro +3.2 million, compared to Euro +1.2 million in the first half of 2018.

In the first half of 2019, the cost/income ratio was 67.0% compared to 66.9% in the first half of 2018.

Net provisions for risks and charges amounted to Euro +1.2 million.

The profit (loss) on continuing operations amounted to Euro -8.7 million, compared to Euro +27.3 million in the first half of 2018.

During the half, the taxes and charges borne by banks as a result of the European and national resolution mechanisms (SRF and NRF) and the deposit protection mechanism

(DGS) accounted for totalled Euro 6.4 million (Euro 7.9 million in the first half of 2018). Net of the tax effect, this expense would be Euro 4.6 million.

Impairment losses on goodwill came to Euro 99.6 million, compared to a zero figure in the first half of 2018. Net of the tax effect, the adjustment would be Euro 87.4 million.

The net profit totalled Euro -101.5 million, after accounting for income taxes of Euro +13.2 million, compared to Euro +15.3 million in the first half of 2018.

Balance sheet as at 30 June 2019

As at 30 June 2019, direct funding amounts to Euro 8,022.2 million, up +4.4% compared to Euro 7,683.4 million as at 31 December 2018. Within this comparison, there was growth of +5.5% in current accounts and on demand deposits of the sales network (Euro 6,331.8 million against Euro 6,002.8 million at the end of 2018). In addition, the downward trend continues for bonds issued (-15.0%, or Euro -85.4 million) in line with the policy for the progressive reduction in the cost of funding thanks to the decline in more costly forms of funding. Repurchase agreements and other forms of funding were up by Euro +95.1 million.

Indirect funding rose by +6.1% to Euro 3,660.4 million.

Administered funding (third-party products) amounted to a total of Euro 2,526.5 million, up compared to Euro 2,327.8 million at the end of 2018. Insurance segment trends were positive, posting an improvement of +8.0% to Euro 780.2 million, compared to Euro 722.3 million at the end of 2018.

Administered funding - third-party securities rose by +2.7% to Euro 579.5 million, compared to Euro 564.3 million at the end of 2018.

Financial assets other than loans to customers and banks total Euro 2,454.3 million and are up by 5.3% compared to Euro 2,331.4 million as at 31 December 2018. This aggregate primarily includes debt securities for Euro 2,230.3 million, equity securities and UCITs for Euro 183.0 million and the fair value of derivatives for Euro 0.1 million. As a result of the introduction of IFRS 9, financial assets also include loans to customers which must necessarily be designated at fair value (totalling Euro 40.8 million).

The total increase compared to the end of 2018 is attributable to the growth in debt securities classified in the “hold to collect” (Euro +231.5 million) and “hold to collect & sell” (Euro +18.0 million) portfolios. Government bonds totalled Euro 1,921.0 million (Euro +332.6 million compared to 31 December 2018).

Net loans to customers, inclusive of non-performing loans, amounted to Euro 7,243.5 million. Net performing loans to customers rose by +0.8% to Euro 6,823.5 million, compared to Euro 6,769.7 million at the end of 2018. Total non-performing loans (doubtful, unlikely to pay and past due) amounted to Euro 329.6 million net of value adjustments, down by -11.1% compared to Euro 370.8 million as at 31 December 2018. In particular, doubtful loans totalled Euro 163.4 million, down by -9.9% compared to Euro

181.3 million as at 31 December 2018, accounting for 2.3% of total loans (2.5% as at 31 December 2018), and with a degree of coverage of 60.1% (55.5% at the end of 2018). Unlikely to pay loans declined by 17.1% to Euro 152.1 million from Euro 183.3 million in December 2018. Past due loans amounted to Euro 14.1 million, compared to Euro 6.1 million at the end of 2018.

Gross non-performing loans totalled Euro 670.6 million, up +1.2% on the Euro 662.5 million recorded at the end of 2018. In particular, gross doubtful loans were Euro 409.9 million compared to Euro 407.8 million at the end of 2018. Gross unlikely to pay loans were Euro 246.1 million compared to Euro 248.1 million at the end of 2018. Gross past-due loans were Euro 14.7 million compared to Euro 6.7 million at the end of 2018.

The degree of coverage on the entire aggregate of non-performing loans totalled 50.9%, up compared to 44.0% as at 31 December 2018.

The coverage ratio of performing exposures is 0.8%, essentially unchanged compared to 31 December 2018.

As at 30 June 2019, Volksbank's operating structure is made up of 162 bank branches and 1,303 personnel.

Prudential ratios

The estimated capital ratios as at 30 June 2019 are:

- 11.7% for the Common Equity Tier 1 ratio (11.3% as at 31 December 2018);
- 11.7% for the Tier 1 ratio (11.3% as at 31 December 2018);
- 13.8% for the Total capital ratio (13.3% as at 31 December 2018).

These ratios benefit from the exercise of the option for the full application of the transitional provisions introduced by the new article 473 bis of EU Regulation no. 575/2013, which defers over time the impact on own funds deriving from the application of the new impairment model introduced by IFRS 9.

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In addition to the information presented, the Balance Sheet and Income Statement reclassified as at 30 June 2019 compared with the prior year are attached hereto.

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The Manager responsible for the preparation of corporate accounting documents, Alberto Caltroni, hereby states, in accordance with 154-bis, paragraph 2, of Italian Legislative Decree no. 58/1998, that the accounting information given in this press release corresponds to the documentary records, the accounting books and the accounting entries.

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This press release is available on the websites www.volksbank.it and www.bancapopolare.it.

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RECLASSIFIED BALANCE SHEET

Assets *(figures in thousands of euro)*	30.06.2019	31.12.2018
Loans to banks	74,880	48,929
Loans to customers	7,284,269	7,275,467
- at amortised cost	*7,243,515*	*7,227,655*
- designated at fair value through profit or loss	*40,754*	*47,812*
- designated at fair value through other comprehensive income	-	-
Financial assets measured at amortised cost, other than loans	1,443,760	1,212,245
Financial assets designated at fair value through profit or loss	175,284	242,210
Financial assets designated at fair value through other comprehensive income	794,490	829,144
Investments	5,626	5,745
Property and equipment and intangible assets	152,938	254,697
Assets for rights of use	18,053	20,125
Tax assets	182,725	174,705
Non-current assets and groups of assets held for sale	12,698	12,923
Other assets	224,846	219,497
Total Assets	**10,369,569**	**10,295,687**

Liabilities and Shareholders' equity *(figures in thousands of euro)*	30.06.2019	31.12.2018
Due to banks at amortised cost	1,351,653	1,418,187
Financial liabilities to customers measured at amortised cost	8,004,279	7,683,419
- due to customers	*7,387,701*	*6,985,199*
- securities issued	*616,578*	*698,220*
Financial liabilities held for trading	2,058	1,429
Financial liabilities designated at fair value through profit or loss	-	-
- due to customers	-	-
- securities issued	-	-
- other financial liabilities designated at fair value	-	-
Tax liabilities	28,210	31,254
Liabilities associated with assets held for sale	-	-
Provisions for risks and charges	18,562	20,729
Other liabilities	215,473	285,341
Payables for rights of use	17,897	20,125
Shareholders' equity:	731,437	835,203
- Share capital	*183,440*	*183,440*
- Retained earnings	*650,995*	*632,893*
- Valuation reserves	*(1,461)*	*(15,387)*
- Net income (loss) for the period	*(101,537)*	*34,257*
Total liabilities and Shareholders' Equity	**10,369,569**	**10,295,687**

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RECLASSIFIED INCOME STATEMENT

RECLASSIFIED INCOME STATEMENT ITEMS	30.06.2019	30.06.2018
(figures in thousands of euro)		
Net interest	90,858,454	82,901,701
Dividends and profits (losses) on investments carried at equity	1,830,099	2,198,225
Interest margin	**92,688,553**	**85,099,926**
Net fee and commission income	44,678,803	43,065,640
Net profit (loss) on financial assets/liabilities designated at fair value	(14,444,503)	4,281,113
Other operating income/expenses	10,463,252	9,963,254
Other operating income	**40,697,552**	**57,310,008**
Net operating income	**133,386,105**	**142,409,934**
Personnel expenses	(46,924,401)	(50,473,196)
Administrative expenses	(35,774,609)	(38,987,698)
Net adjustments to property and equipment and intangible assets	(6,656,575)	(5,756,754)
Operating expenses	**(89,355,585)**	**(95,217,648)**
Operating profit (loss)	**44,030,520**	**47,192,286**
Net adjustments to loans and other financial transactions	(57,199,961)	(17,096,106)
Net adjustments to other assets	3,186,541	1,209,548
Net provisions for risks and charges	1,213,591	(4,018,185)
Profits (losses) on disposal of investments in associates and companies subject to joint control and other investments	32,898	5,759
Profit (loss) on continuing operations	**(8,736,410)**	**27,293,301**
Period-end income taxes for continuing operations	(797,321)	(6,631,074)
Value adjustments to goodwill net of taxes	(87,377,880)	-
Taxes and charges relating to the banking system net of taxes	(4,625,220)	(5,326,953)
Profit (Loss) for the year	**(101,536,831)**	**15,335,274**

NOTES

The balance sheet and income statement were reclassified in accordance with management criteria to allow for a more immediate reading of the results. The reclassified statements were created based on the financial statement layouts set forth in Bank of Italy Circular no. 262/2005, updated on 30 November 2018 to adopt the changes introduced by IFRS 16 “Leases”, approved under Regulation (EU) 2017/1986 of 31 October 2017, which replaced IAS 17 in force for the purposes of the treatment of lease transactions in the financial statements as from 1 January 2019.

In order to allow a comparison on a like-for-like basis, the data impacted by the new IFRS 16 were re-stated in the reclassified balance sheet tables as at 31 December 2018. In particular, the data in the reclassified balance sheet table as at 30 June 2019 were compared with the corresponding balances as at 1 January 2019, which also include the effects of the first-time application of IFRS 16.

Below is a reconciliation of the new items with respect to the income statement prepared on the basis of Bank of Italy Circular No. 262:

- The item “Dividends and profits (losses) on investments carried at equity” includes the result of items “70. Dividends and similar income” and “220. Profits (losses) on investments in associates and companies subject to joint control”;
- the item “Net financial result” includes the results deriving from the valuation or disposal of all financial instruments, with the exception of the profits (losses) on investments in associates and companies subject to joint control and adjustments for credit risk which are presented separately. In particular, this item includes profits (losses) on trading (item 80), profits and losses from disposal or repurchase (item 100 (b) and (c)), with the exception of the result connected to the disposal of financial assets valued at amortised cost (item 100 (a)) and the net profit (loss) of other financial assets and liabilities designated at fair value through profit or loss (item 110);
- the item “Administrative expenses” coincides with income statement item 160 (a) “Administrative expenses: b) other administrative expenses”, with the exception of taxes and charges paid to support the banking system, which are included in a specific item;
- the item “Net adjustments to loans to customers” includes item 130 a) “Net adjustments/recoveries for credit risk of: a) financial assets valued at amortised cost”, relating only to the component represented by loans to customers as well as the profit (loss) deriving from the assignment of loans to customers pursuant to item 100. Profits (losses) on disposal or repurchase of: a) financial assets valued at amortised cost, relating only to the component represented by loans to customers;
- the item “Net adjustments on securities and other financial assets” is represented by adjustments on securities and on loans to banks classified in the portfolios of “Financial assets valued at amortised cost” (corresponding to item 130 b) “Net

adjustments/recoveries for credit risk relating to: b) financial assets designated at fair value through other comprehensive income" and the remainder of the above-mentioned item 130 a));

- the item "Net provisions for risks and charges" corresponds to item 200 of the income statement layout required by Bank of Italy Circular No. 262 and includes provisions for commitments and guarantees issued;
- the item "Value adjustments to goodwill net of taxes" refers to the impairment of goodwill represented in item 240 of the income statement table set forth in Bank of Italy Circular No. 262 stated net of the tax effect;
- the item "Taxes and charges relating to the banking system net of taxes" refers in full to taxes and other charges intended to maintain the stability of the banking system and is shown net of taxes.

this press release and the half-yearly financial report as at 30 June 2019 are available to the public on the authorised circulation and storage mechanism eMarket (www.emarketstorage.com) and on the company website www.volksbank.it / www.bancapopolare.it, "Investor Relations" section.

Volksbank, with registered office in Bolzano, is a regional bank in Alto Adige (original market) and also in the North-East of Italy in the Provinces of Trento, Belluno, Treviso, Pordenone, Vicenza, Padua and Venice. A total of 162 Volksbank branches are in operation. The bank (year founded 1886) includes 1,303 employees and around 60,000 shareholders.